Annual Report 1971

Kenting

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Calgary, Alberta, Canada
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DIVISIONAL OFFICES

KENTING AVIATION DIVISION,
P.O. Box 6024,
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Telephone 677-6721 (A.C. 416)

KENTING BIG INDIAN DRILLING DIVISION,
415 Monument Place S.E.,
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Telephone 272-8811 (A.C. 403)

ATLAS AVIATION DIVISION,
Resolute Bay, N.W.T.

KENTING OILFIELD SERVICES DIVISION,
635 - 6 Avenue S.W.,
Calgary, Alberta
Telephone 263-4970 (A.C. 403)

KENQUEST EXPLORATION DIVISION,
524 - 11 Avenue S.W.,
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Telephone 263-1701 (A.C. 403)

KENTING PETROLEUM GEOPHYSICS DIVISION,
6004 Centre Street S.E.,
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Telephone 252-6696 (A.C. 403)

KENTING PETROLIA DRILLING DIVISION,
700 - 6 Avenue S.W.,
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Telephone 263-2980 (A.C. 403)

KENTING KLONDIKE HELICOPTERS DIVISION,
Hangar No. 1, Calgary International Airport
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Telephone 277-8526 (A.C. 403)

KENTING EARTH SCIENCES DIVISION,
Eastern office:
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KENTING EXPLORATION SERVICES DIVISION,
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Calgary, Alberta
Telephone 266-4041 (A.C. 403)

KENTING INDUSTRIAL SERVICES DIVISION,
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SERVICES DES RESSOURCES NATURELLES KENTING LTEE.,
1010 St. Catherine West,
Montreal, P.Q.
Telephone 866-3747 (A.C. 514)

OPERATIONS OFFICES

Toronto; Calgary; Edmonton;
Whitehorse, Y.T.; Fort Smith, N.W.T.;
Hay River, N.W.T.; Resolute Bay, N.W.T.;
Inuvik, N.W.T.; Vancouver, B.C.

DIRECTORS

J. C. ANDERSON
President
Allied Equipment Ltd. — Calgary

S. W. ARMSTRONG
President
Canam Holdings Ltd. — Calgary

THE HONOURABLE SIMON FRASER
Hambros Bank Limited — London, England

J. H. MOWBRAY JONES
Director
Bank of Montreal — Montreal

D. N. KENDALL
Chairman of the Board
Kenting Limited — Toronto

D. A. McINTOSH
Partner
Fraser & Beatty — Toronto

A. E. PALLISTER
Vice-President, Science & Development
Kenting Limited — Calgary

G. D. ROSS
Vice-President, Finance
Kenting Limited — Calgary

P. R. SANDWELL
President
Sandwell and Company Limited — Vancouver

J. W. STRATH
President and General Manager
Kenting Limited — Calgary

A. VANDEN BRINK
Vice-President, Drilling
Kenting Limited — Calgary

R. A. WISENER
Partner
Wisener and Partners Company Limited — Toronto

OFFICERS

D. N. KENDALL,
Chairman of the Board of Directors

J. W. STRATH,
President and General Manager

G. D. ROSS,
Vice President, Finance

A. VANDEN BRINK,
Vice President, Drilling

A. E. PALLISTER,
Vice President, Science and Development

J. E. MACARTNEY,
Secretary-Treasurer

J. F. MOORE,
Assistant Secretary

G. W. OWEN,
Assistant Secretary

TRANSFER AGENTS

Royal Trust Co.

AUDITORS

Price Waterhouse & Co.

SOLICITORS

Fraser & Beatty – Toronto
Howard Moore Dixon Mackie & Forsyth – Calgary

STOCK EXCHANGE LISTING

Kenting is a Canadian Company, owned by Canadians. Its shares are listed on The Toronto Stock Exchange.

TO THE SHAREHOLDERS

1971 was an excellent year for Kenting Limited. The Company's operating income before taxes was $1,336,000 — the highest in its history. Major contributing factors were the substantial sales of previously acquired Quest data and the continuing improvement in operational efficiency. The excellent cash income generated by operations, together with the sale of the Offshore Division, has enabled the Company to enter 1972 in a strong financial position.

Generally, it was a difficult year from a sales point of view. Activity levels in the oil and mining industries were lower than those of previous years. The Company made improvements in performance and cost controls which more than offset profits lost through volume declines.

The original Kenting concept was to develop an integrated resource exploration service organization with special emphasis on work in the Canadian North. The feasibility of this concept becomes increasingly evident with each year of operation. Revenues in 1971 resulting from inter-divisional co-operation and Kenting's self-generated special projects amounted to $3.5 million. Slightly over 60% of revenue was earned at locations north of 60° latitude — the Northwest Territories and Arctic Islands.

The outlook for the future is optimistic. The recent oil and gas strikes in the Mackenzie Delta and Arctic Islands confirm our belief in the Kenting concept.

Financial

The earnings (loss) per share, after deduction of preferred share dividend requirements of $121,000 in 1971 and $136,000 in 1970 were:

	1971	1970
Cash flow before income taxes	$ 5.82	$ 3.83
Income (loss) before extraordinary items	$ 1.29	$ (1.23)
Net income (loss)	$ .91	$ (2.14)
Weighted average number of common shares outstanding	427,206	389,921

Cash flow before income taxes was $2,609,000, an increase of 60% over the 1970 amount of $1,630,000. In 1971 actual income taxes payable were $295,000, while in 1970 there was an income tax recovery of $40,000. Income before extraordinary items was $671,000 in 1971 as compared to a loss of $341,000 in 1970.

The 1971 income after all charges amounted to $508,000, compared to the 1970 net loss of $696,000. The 1971 extraordinary items, totalling $163,000 (Note 12 in the financial statements), include the substantial losses resulting from the final disposition of the offshore rig.

The extent of the improvement in the Company's year end financial position is shown in the financial statements. Working capital was increased by $1,273,000 during 1971 while total term debt was reduced by a net amount of $1,647,000.

In the fourth quarter, the payment of all cumulative preferred dividends, including those previously in arrears, was brought up to date. During the past fifteen months 122,053 Class A preferred shares were converted to common shares, leaving 6,502 unconverted at this time. These conversions will relieve the Company of cumulative dividend obligations of $90,000 per year.

The Company's strengthened financial position will allow it to pursue plans for internal and external expansion. The co-ordination of inter-divisional activities will also continue. Gradually, the Company aims to apply the Kenting concept of providing a complete exploration service to international markets.

Organization

Divisional reorganization and consolidation continued through 1971. Improved performance and control were effected through the following changes:

- Petrolia Oilwell Drilling Division and Kenting Oilwell Drilling Division were consolidated into a single division named Kenting Petrolia Drilling.
- Kenting Earth Sciences (Eastern) and Kenting Earth Sciences (Western) Divisions were consolidated into a single division, Kenting Earth Sciences.
- Kenting Exploration Services was activated as an administrative and control centre for all geophysical divisions and Quest programs, under one group manager.

Subsequent Events

In January, 1972, Kenting negotiated an agreement in principle with Mr. Weldy Phipps, President of Atlas Aviation Limited, to purchase all of the outstanding shares of that Company. The required detailed examination and government requirements have not yet been completed, but these are expected to be finalized in the near future.

Atlas Aviation is a fixed-wing carrier and has been established in the Arctic, at Resolute Bay, since the early '60s. Its assets include eight aircraft — four twin Otters, three DC-3's and one Beaver — serving the ever growing needs of exploration companies throughout the Arctic Islands.

A 300 Series Twin Otter has since been added to this fleet in anticipation of increased activity. Expansion of existing facilities to provide for improved servicing in the transport of men and light equipment in the High Arctic is planned.

During the summer of 1972 Kenting will again undertake an extensive marine seismic program in the Arctic. Two ships have already been chartered and mobilization will commence in June.

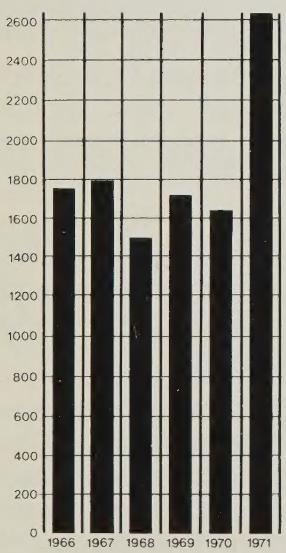
The Board of Directors would like to take this opportunity to thank the 850 Kenting employees who have worked so hard this past year and who have contributed so much to the materially improved performance of the Company.

J. W. STRATH
President

Kenting's management committee, set up in 1970, meets regularly to co-ordinate operations, to maintain financial controls, and to plan both long and short-term objectives.

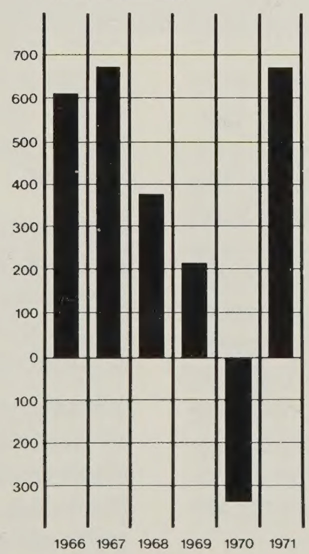
CASH FLOW

BEFORE INCOME TAXES
$ in thousands

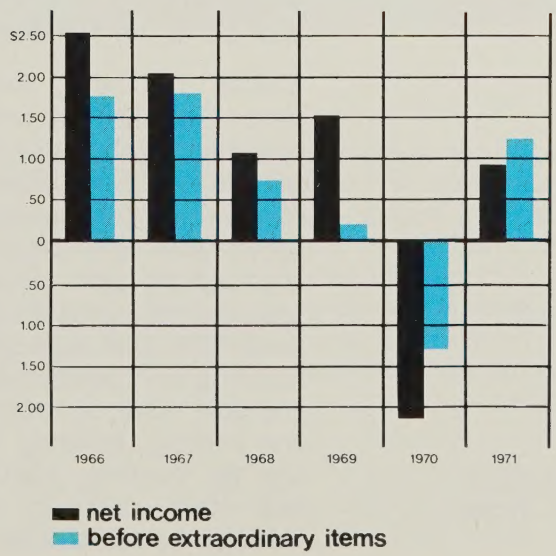


INCOME

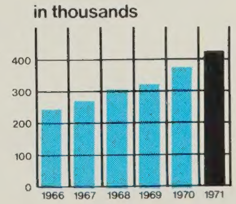
BEFORE EXTRAORDINARY ITEMS
$ in thousands



EARNINGS PER SHARE



WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING
in thousands



Deep drilling rigs are modified for winter and Arctic operations.

Drilling

Kenting Petrolia Drilling Division - Deep and Shallow Oil & Gas Drilling

The Company's deep and shallow-well drilling divisions were combined at year's end for greater efficiency. Under the new name Kenting Petrolia Drilling, management functions were centralized.

Rig activity declined further in 1971 due to a general slowdown in the Canadian petroleum industry. However, revenue and profits from deep drilling operations compared favorably with previous years; profits substantially increased for shallow drilling.

The two largest rigs continued to operate in the Alberta foothills region. A medium-depth drilling rig was modified for Hercules transport and Arctic operations, and is drilling in the vicinity of Norman Wells, N.W.T. Other areas of operation for big rigs were the Fort Nelson area of B.C., the Yukon and north central Alberta.

One of the small shallow rigs was taken out of service and the five remaining rigs in this category operated in Alberta and Saskatchewan as well as in the Northwest Territories.

During the year, three rigs (one deep, two shallow) successfully participated in the Operation Reef project in the Horn River area of the Northwest Territories, near Great Slave Lake. The project, which was planned by Horn River Resources, resulted in the drilling of 20 wells under the joint sponsorship of participating oil companies. Kenting was the sole work contractor—providing the drilling, building the roads, doing the trucking, planning the logistics and carrying the program through to completion.

The 1972 outlook is optimistic. Rig activity increased substantially in the latter months of 1971 and indications are that the 1972 drilling level should surpass that of 1971, resulting in higher revenue. The ever-increasing demand for shallow gas should be an important factor in providing work for small rigs.

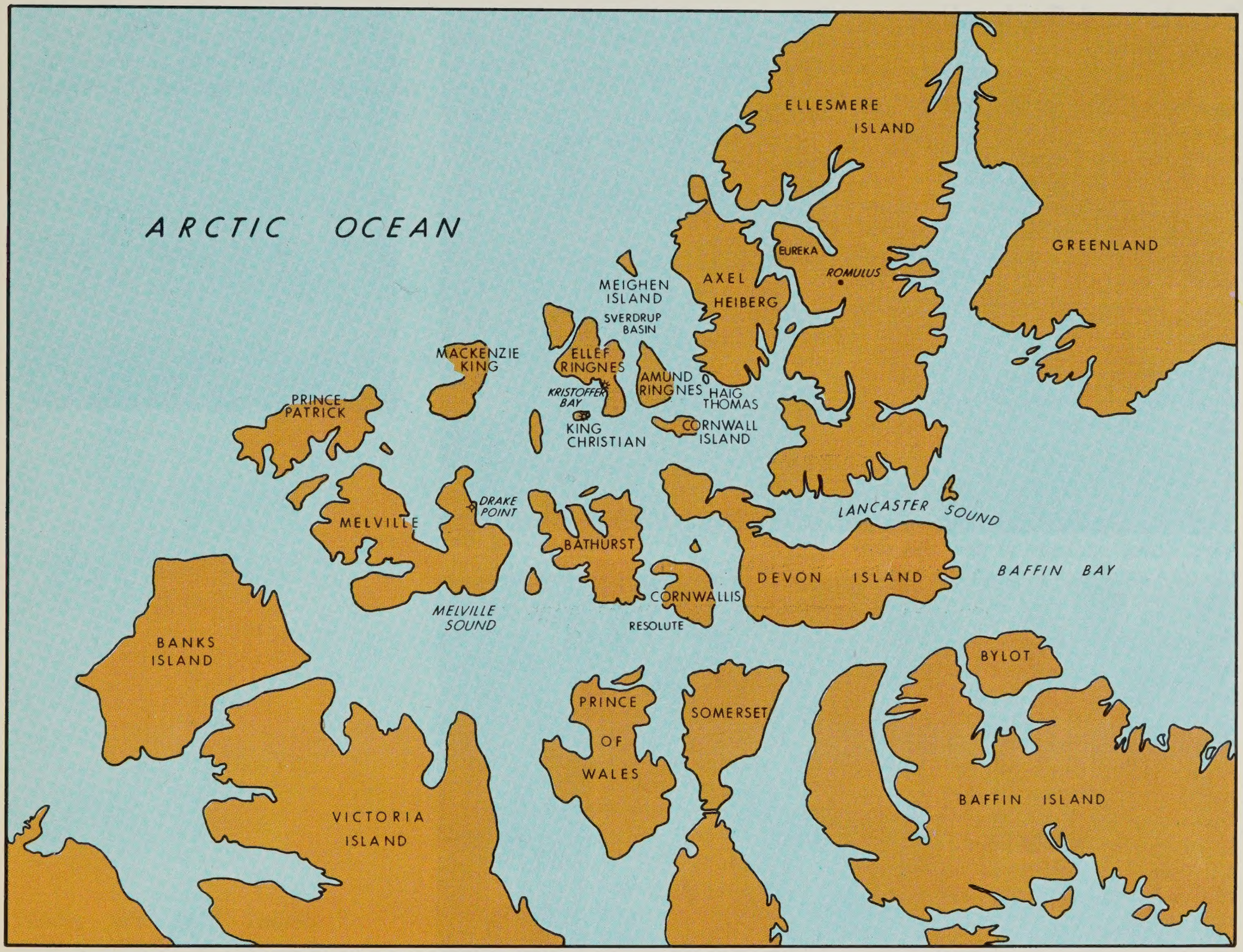
Kenting Big Indian Drilling Division - Seismic and Mining Drilling
Kenting Industrial Services Division - Mining and Industrial Drilling

1971 was a year of transition for Kenting Big Indian, with a search for — and a start made on — broadened market opportunities. This culminated in the formation of the industrial drilling division near the year's end.

Mineral exploration activity was reduced in 1971 due to uncertainty concerning future government positions on foreign ownership and taxation of the mineral resource industry. However, KBI completed projects in all western provinces and Alaska. Improved sample collection techniques were developed and the 1972 target is to further expand the SURE-CORE methods and their applications. Expanding opportunities are evident.

Heli-portable activities met targets in spite of a shift in emphasis in the Canadian Arctic and delays on pipeline studies in Alaska. Little change is projected for 1972.

An important contribution was made to the Horn River program by the shallow drilling department, which provided one rig and worked closely with other Kenting Divisions in the



successful completion of this project.

During the summer generally reduced activity in production drilling for oil and gas resulted in a low rate of activity. This situation improved dramatically during the last quarter, and resulted in the need to transfer drilling equipment from KBI's mining drilling department to add to the capability in the oil and gas field. Prospects for 1972 are encouraging.

Oil and gas discoveries in the Arctic Islands during the past few years have generated work for Kenting divisions. A major land seismic program, which could take two to three years, was begun by Kenting Petroleum Geophysics for an independent oil company in February of 1972. In addition, Kenting Petrolia Drilling, along with two of Canada's largest drilling contractors, has announced plans for a multi-well drilling program for a group of oil companies in a joint-venture subscription plan, similar to the Quest model. Both of these projects focus exclusively on the Arctic Islands.

Quests and Exploration Data Sales

Kenting's Quest programs are designed to meet anticipated resource exploration in Canada. Since 1968, a series of Quest subscription surveys has covered 849,000 square miles in the vast reaches from Alberta's northern boundary to Ellesmere Island (just 590 miles from the North Pole), and from the Alaska boundary to Labrador.

Participation surveys aren't new. What Kenting has done is take the idea, adapt it to Canadian requirements, research, develop and design proposals of current interest to the industry, and through refinements created a profitable package. Kenting's Quest package is now the recognized continuing resource-exploration concept in the North.

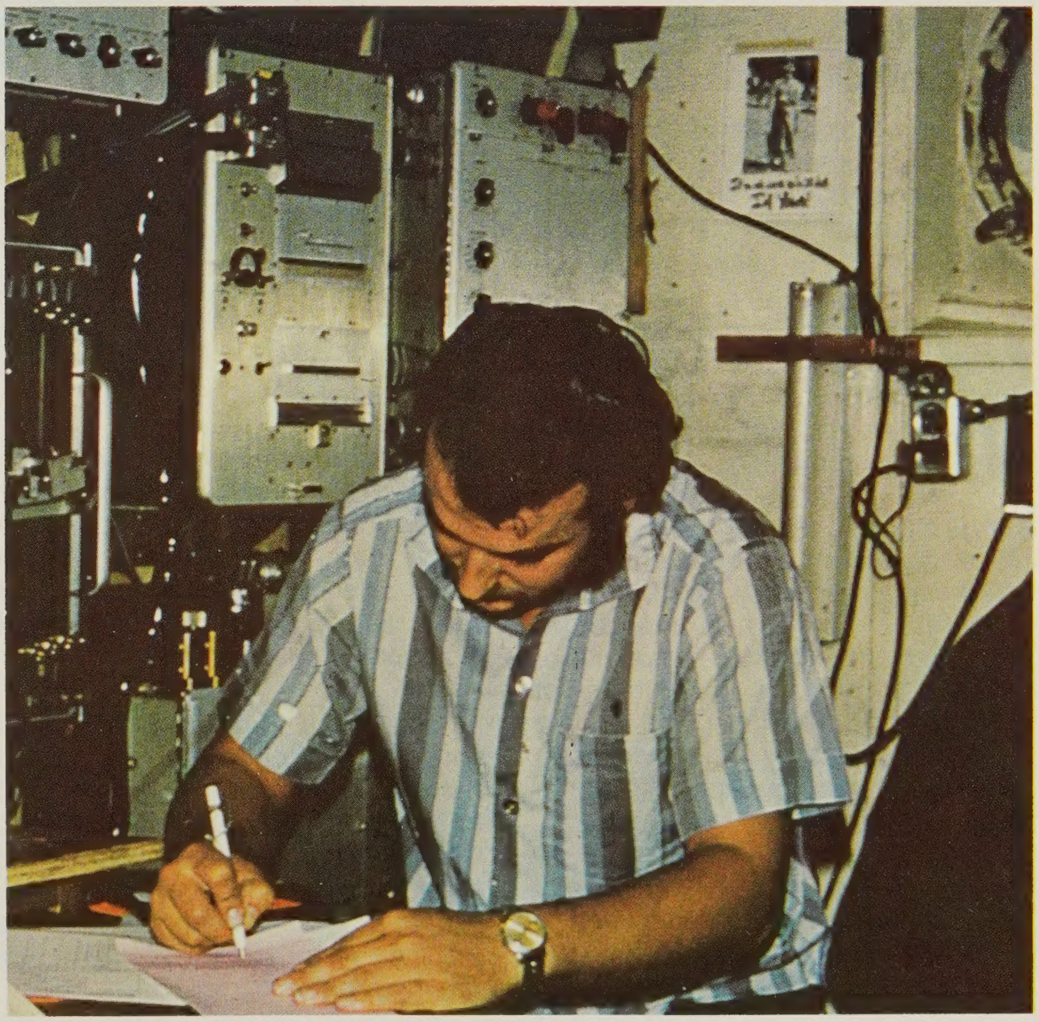
The vast areas to be explored in the North and the weather conditions prevailing there are generally not understood. The high cost of Arctic operations can be simply illustrated: Arctic drilling costs around 12 times as much as drilling in southern Alberta. In a large measure this is due to expensive mobilization costs, the back-up and additional equipment and supplies, and the expense of maintaining men and equipment at a remote and relatively inaccessible job site.

By concentrating on regional multi-discipline surveys — collecting geological, seismograph, gravity and aeromagnetic data prior to running the large financial risk of drilling— and by sharing the mobilization costs among a number of joint-venture subscribing companies, the Quests can provide regional exploration information at a fraction of the cost of an individual program. In addition, Quest-mobilized crews carry out detailed evaluations under private contract with individual companies.

One reason Arctic exploration permit-holders find the Quest package attractive is that it allows them to meet the federal government's per-acre work requirement for lands under permit, without overspending. Kenting's KenQuest Division, which designs and manages the programs, clears the proposals with Ottawa to ensure work credit eligibility. The minimum work requirement starts at 5 cents per acre in the first 18 months of the permit and escalates to 50 cents per acre per year over the term of the permit, for a total commitment of $2.65 per acre over 12 years in the Arctic. The minimum requirement for the Arctic Islands north of 70° latitude alone is projected to run at $100 million per year within seven years. Work requirements on federal lands during the '70s could be in excess of $2 billion.

The history of Quest programs indicates that their focus has been "where the action is". GeoQuest in 1968 explored the southern Northwest Territories in the area of the upper Mackenzie River Valley. With the subsequent Prudhoe Bay oil discovery, exploration interest leap-frogged to the Arctic North Slope in the vicinity of the Mackenzie Delta and Beaufort Sea. Kenting's ArcticQuest program was set up in 1969 to meet exploration requirements in the area. When interest shifted again to the Arctic Islands in 1970-71, Kenting's PolarQuest program was offered. BaffinQuest was carried out in 1971 to serve permit holders in the Eastern Arctic region.

Since 1968 some $8,000,000 of exploration data has been acquired in the Quests and most of this is retained by Kenting as part of a valuable resource library of "shelf data" available for resale to interested companies when and if discoveries in particular areas make such data of vital interest. However, since additional sales cannot be used for work credit purposes beyond the total investment by industry and Kenting, the value of future sales will not likely approach the initial Quest subscriptions.



(Above left) M/V Theron steams through ice-cluttered waters in this shot from a Klondike helicopter returning to its shipboard helipad. The helicopters guide ships through heavy ice, and also provide supply support.

(Above right) Groups of clients are briefed on exploration proposals in the preliminary stages of organization of a Quest program.

(Right) Continuous shipboard data analysis assists in the direction of operations on board Quest marine seismic vessels.

Geophysical

Kenting's geophysical divisions had an excellent year, operating ahead of their budgets for each quarter.

KenQuest Exploration Division - Survey Design, Management, Interpretation and Data Sales

More than 12,000 miles of seismic profiles were recorded for Quest and private surveys within the Arctic Islands and eastern Arctic waters by Kenting Petroleum Geophysics crews. The stacked or multifold data shown in these profiles is much more sophisticated than the single-trace data obtained in 1970. Yet, the success of the 1970 single-trace recording was responsible for the stepping-up to 24-channel recording in '71.

In the western Arctic (Beaufort Sea), approximately 225 miles of conventional marine multi-fold data were recorded for PolarQuest and ArcticQuest.

The total value of marine work generated and managed by the KenQuest Division in 1971 was in excess of $4 million and was undertaken for some 24 oil companies.

Interpretation of the over 3,000 miles of marine data acquired in 1970 was completed. The Division's interpretive staff is now engaged in the supervision of processing and interpretation of some 6,000 miles of PolarQuest, BaffinQuest and private data, with a similar amount of data awaiting processing and interpretation as it is sold.

The balance of a 50,000-mile aeromagnetic survey left uncompleted in 1970 was flown in 1971 by the subcontractor. It covered the north half of Ellesmere Island, all of Axel Heiberg and west to Meighen. Interpretation of the data is now almost completed.

Once interpretation of Quest data has been completed, it becomes part of Kenting's resource library of "shelf data," available for resale. Gross sales of previous years' shelf Quest and Agent data in 1971 totalled over $1 million.

A total of 16 companies have indicated their intention to subscribe to more than 12 of the proposed 1972 BaffinQuest, PolarQuest and ArcticQuest surveys. The total value of the work provisionally committed is in excess of $2.5 million and includes marine geophysics, geologic and gravity programs.

Kenting utilized two ice-strengthened vessels, the M/V Theron and the M/V Theta, to carry out its marine seismic explorations in the high Arctic during the summer of 1971. Even in summer, the ice was sometimes as much as 12 feet thick, and the co-operation of the federal government's ice-breakers was essential to the success of the program.

Kenting Petroleum Geophysics Division - Petroleum Seismograph Surveys

Extremely favorable ice conditions in the Arctic made possible the recording of more than 12,000 miles of seismic data by KPG crews on the ice-strengthened vessels M/V Theron and M/V Theta in the summer of 1971.

Experience gained in 1970 and the assistance of Canadian Ministry of Transport icebreakers, plus the more sophisticated recording equipment utilized in 1971, combined to consolidate Kenting's lead in Arctic marine seismic exploration.

Late in 1971, KPG was awarded a large land seismic exploration contract in the Arctic Islands. Scheduled to start early in 1972, the program will cover King Christian, Amund Ringnes, Haig-Thomas and Meighen Islands and entailed a considerable investment in tracked equipment.

Kenting Earth Sciences Division - Mining and Petroleum Geophysical Surveys

As the technical capabilities of the Eastern and Western divisions of Kenting Earth Sciences tended more and more to overlap, and especially as the Western Division became more involved in mining prospecting, it was decided at year's end to make the two divisions one, but to retain offices at Toronto and Calgary.

On the 1971 Quest expeditions in the Arctic 6,000 miles of sea gravity profiles and approximately 3,000 miles of sea magnetics were recorded by Western Division personnel. In addition, the Division completed a 5,000 station gravity network on Banks, Axel Heiberg and Ellesmere Islands for seven companies.

Induced polarization studies in the Alberta foothills offered a proven alternative to trenching as a means of prospecting for coal with minimum damage to the land surface.

This technique, as well as marine gravity testing in the Arctic's ice-clogged waters, was pioneered by Kenting.

Internationally, the Eastern Division's contracts in Honduras and Cameroon carried through the whole of 1971 and into 1972. Following the correlation of airborne magnetometer data with photogeology for an over-all assessment of Cameroon's mineral potential, Kenting crews were utilized to do further detailed work under the contract which was arranged by the Canadian International Development Agency. In Honduras, both geochemical and multi-method geophysical studies were completed early in 1972.

In Canada, more of the Eastern Division's activity was focused on the North than formerly, especially in the area around James Bay.

(Top) Induced polarization geophysical studies were pioneered by Kenting in coal prospecting programs in Alberta's foothills region.

(Above) Geological survey teams followed up initial exploration programs in Honduras, with completion of the survey series early in 1972.

Air Services

Kenting Klondike Helicopters Division

Highlights of Klondike 1971 activity were its participation in marine seismic operations, increased activity in the Arctic Islands and a busy forest fire-fighting season in the Northwest Territories.

The Division is gradually changing over its fleet from conventional to turbine-powered equipment. At present, Klondike has two heavy-lift Bell 205A machines, four light-turbine FH-1100s, six Bell 206A and 10 conventional craft. The total fleet decreased from 28 to 22 helicopters as small craft were sold and replaced by turbine equipment, with a resulting net increase in total investment in equipment. Turbine machines are expected to increase the operating season. This increase — from five months per year per machine for conventional helicopters to ten months per year for turbine-powered craft — is directly attributable to the ability of turbines to adapt to winter operations.

Kenting Aviation Division

Fixed-wing aircraft operations ran on a much more profitable basis than in other years, with 1971 being Kenting Aviation's most successful year to date.

Besides improved management, increased Arctic ice reconnaissance and an unusually active forest fire-fighting season were the main reason for the Division's improved performance.

The two DC-4s under contract to the Ministry of Transport for ice reconnaissance were kept on the job under a contract extension running into 1972. Aerial surveys were flown in the high Arctic as well as across Canada. The outlook for aviation specialty sales in 1972 is good.

(Top) Northern natives meet Atlas Aviation's Twin Otter on a high Arctic airstrip. Kenting entered into negotiations with Atlas, which is based in Resolute Bay, N.W.T. early in 1972, to take it into the company as a division which would add to its Arctic capability.

(Above) Increased utilization is the aim of Kenting's Klondike Helicopters Division in switching from conventional to turbine-powered craft, which can be maintained for flying in cold weather.

Construction Services

Kenting Oilfield Services Division

In 1971, the construction and maintenance Division performed well. The efficiencies that were set in motion in late 1970 were successful and the Division has achieved a great deal more stability.

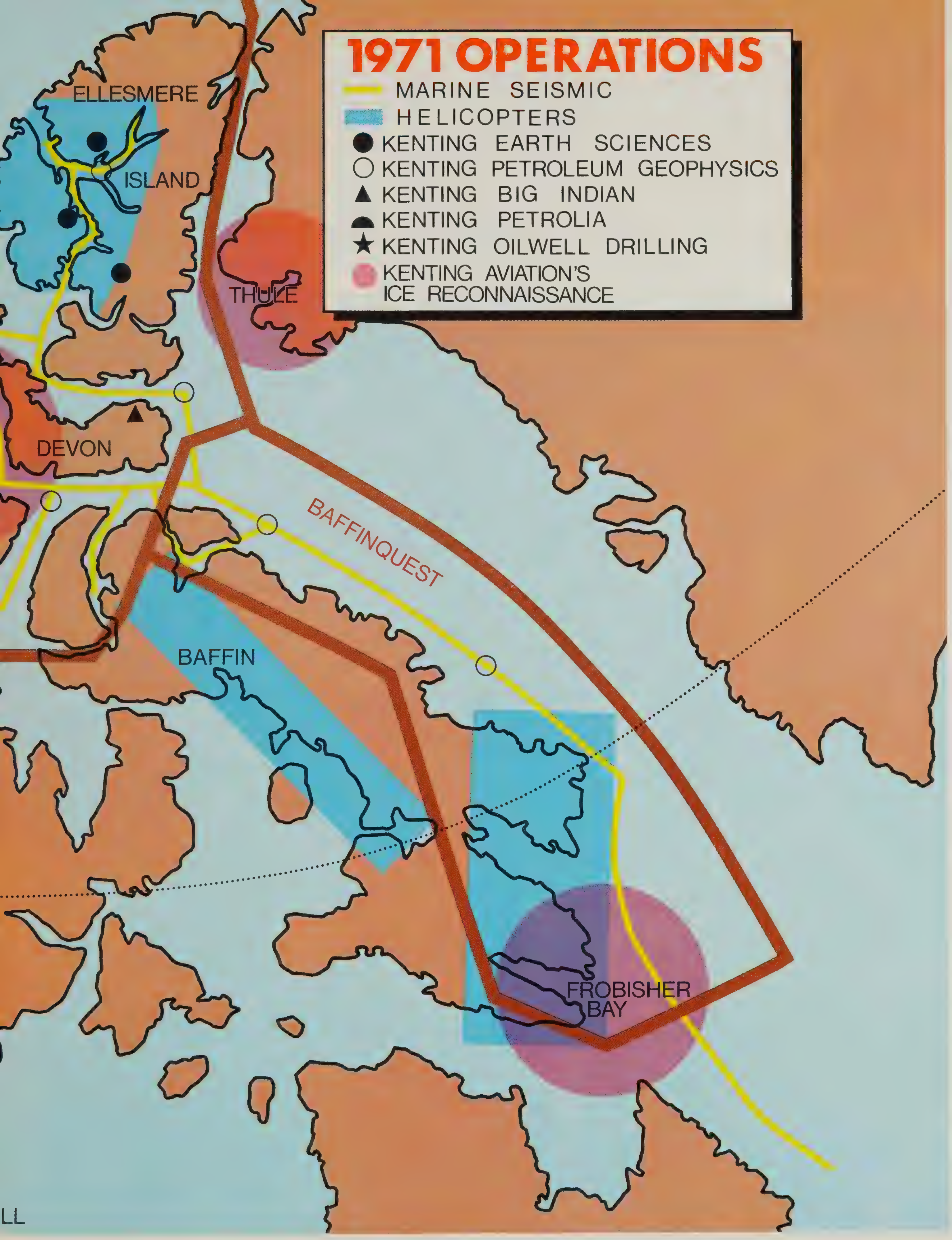
Work volumes for the year were very close to forecast and it is expected that 1972 will see some increase in construction activity. Acquisition of additional heavy equipment during 1971 and 1972 will put the Division in a better position to handle some of the expected increases.

During 1971, the Division developed "Kenting KLEENUP," a complete-combustion incineration process to help combat the air pollution that accompanies the burning off of oilfield waste. The KLEENUP process is adaptable to the non-pollutive incineration of municipal waste. A sizeable market is expected for the process as concern over pollution grows and governments start enforcing legislation already on the books.

(Top) Black clouds of air-polluting smoke have been characteristic of oilfield waste-burning methods.
(Centre) Kenting KLEENUP developed by the Oilfield Services Division, does away with pollution through complete incineration.

(Right) Flexible pipe is positioned in a pipeline trench in Central Alberta.


POLARQUEST
MELVILLE ISLAND
ARCTICQUEST
ATKINSON PT.
BANKS
INUVIK
RESOLUTE
CAPE PERRY
VICTORIA
CAMBRIDGE BAY
ARCTIC CIRCLE
GEOQUEST
HORN RIVER
B.C.
ALTA.
CHU



1971 OPERATIONS
MARINE SEISMIC
HELICOPTERS
KENTING EARTH SCIENCES
KENTING PETROLEUM GEOPHYSICS
KENTING BIG INDIAN
KENTING PETROLIA
KENTING OILWELL DRILLING
KENTING AVIATION'S ICE RECONNAISSANCE
ELLESMERE ISLAND
THULE
DEVON
BAFFINQUEST
BAFFIN
FROBISHER BAY
LL

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31 1971	1970
CURRENT		
Cash	$ 230,961	$ 289,339
Bank term deposits	1,093,000	1,355,000
Marketable securities, at estimated realizable value	—	151,064
Accounts receivable	4,114,268	3,046,508
Notes receivable	66,070	115,000
Inventories (Note 2)	247,624	456,108
Prepaid expenses	150,434	192,565
	5,902,357	5,605,584
INVESTMENTS IN OTHER COMPANIES, at cost less amounts written off	421,735	492,161
PROPERTY AND EQUIPMENT, at cost (Note 3)	12,079,366	14,404,334
Less—Accumulated depreciation	6,117,999	5,918,163
	5,961,367	8,486,171
DEFERRED CHARGES	22,434	32,824
GOODWILL—Cost of investment in subsidiaries in excess of book value at date of acquisition (Note 4)	189,924	203,006
OTHER	19,116	18,206
	$12,516,933	$14,837,952

Approved on behalf of the Board:

J. W. STRATH, Director

G. D. ROSS, Director

CONSOLIDATED BALANCE SHEET

LIABILITIES

	December 31 1971	1970
CURRENT		
Bank advances, secured by accounts receivable (Note 5)	$ 209,558	$ 732,342
Accounts payable and accrued	3,457,817	3,146,045
Notes payable, secured by equipment	28,000	99,892
Income taxes payable	295,941	29,649
Term debt due within one year	477,193	1,436,538
	4,468,509	5,444,466
Current portion of deferred income taxes	32,391	7,650
Provision for Offshore Division costs	—	360,000
	4,500,900	5,812,116
TERM DEBT (Note 5)	2,215,165	2,903,138
DEFERRED INCOME TAXES (Note 6)	1,104,906	1,643,053
PROVISIONS FOR ACCRUED COSTS (Note 7)	98,103	53,093
	7,919,074	10,411,400

SHAREHOLDERS' EQUITY

	1971	1970
CAPITAL STOCK (Notes 8 and 9)		
48,247 6% cumulative redeemable convertible Class A preferred shares of a par value of $12.50 each (Authorized—142,000 shares)	603,088	1,606,938
12,000 6% cumulative redeemable convertible Class B preferred shares of a par value of $30.00 each (Authorized—12,000 shares)	360,000	360,000
9,000 6% cumulative redeemable convertible Class C preferred shares first series of a par value of $33.50 each (Authorized—150,000 Class C preferred shares, issuable in series)	301,500	301,500
487,767 common shares of a par value of 50c each (Authorized—1,000,000 shares)	243,883	203,545
PAID IN SURPLUS (Note 8)	1,915,141	948,501
RETAINED EARNINGS (Note 9)	1,174,247	1,006,068
	4,597,859	4,426,552
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
	$12,516,933	$14,837,952

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31	
	1971	1970
Revenue (Note 11)	$18,396,920	$20,821,293
Net operating costs	12,955,186	16,163,295
Sales, administration and general expenses	2,542,483	2,494,471
Interest, including interest on term debt of $242,924 (1970 — $463,167)	290,134	534,203
Provision for depreciation and amortization (Note 3)	1,336,733	2,115,710
Loss (gain) on disposal of property and equipment	(64,019)	16,035
	17,060,517	21,323,714
Operating income (loss)	1,336,403	(502,421)
Provision for (recovery of) income taxes (Note 4):		
Current	295,407	(40,229)
Deferred	369,992	(121,465)
	665,399	(161,694)
Income (loss) before extraordinary items	671,004	(340,727)
Extraordinary items (Note 12)	(162,560)	(354,743)
Net income (loss) for year	$ 508,444	$ (695,470)
Earnings (loss) per share (Note 13):		
Income (loss) before extraordinary items	$1.29	$(1.23)
Net income (loss)	$ .91	$(2.14)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the year ended December 31 1971	1970
Balance, beginning of year	$ 1,006,068	$ 1,701,538
Add (Deduct) — Net income (loss) for year	508,444	(695,470)
	1,514,512	1,006,068
Less — Dividends paid (Note 9):		
Class A Preferred	241,040	—
Class B Preferred	54,000	—
Class C Preferred	45,225	—
	340,265	—
Balance, end of year	$ 1,174,247	$ 1,006,068

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the year ended December 31	
	1971	1970
Source of funds		
Revenue	$18,396,920	$20,821,293
Less — Net operating costs, sales, administration and general expenses, interest and current taxes	16,083,210	19,151,740
Funds from operations	2,313,710	1,669,553
Term borrowing	764,150	171,509
Proceeds from property and equipment disposals	2,258,323	524,873
Sale of common shares for cash	3,128	821,088
Other	6,542	53,474
	5,345,853	3,240,497
Application of funds		
Additions to property and equipment	2,280,735	1,124,251
Decrease in term debt	1,452,123	1,317,622
Dividends paid	340,265	—
Deferred charges	—	88,068
Investment in other companies	—	274,568
Disposal and write-down of temporary investments	—	90,058
	4,073,123	2,894,567
Increase in working capital, excluding current portion of deferred income taxes and provision for Offshore Division costs	1,272,730	345,930
Working capital (deficiency of working capital), beginning of year	161,118	(184,812)
Working capital, end of year	$ 1,433,848	$ 161,118

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1971

NOTE 1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Kenting Limited and its subsidiaries all of which are wholly-owned (the "Company"). For comparative purposes certain 1970 accounts have been reclassified.

NOTE 2. INVENTORIES:

		1971	1970
Materials and supplies, at cost		$ 502,259	$ 772,524
Work and contracts in progress	(i)	(254,635)	(316,416)
		$ 247,624	$ 456,108
(i) Costs		$ 199,463	$ 834,620
Contract billings and advances		(454,098)	(1,151,036)
		$ (254,635)	$ (316,416)

The Company generally follows the practice of recording income from contracts under the percentage-of-completion method of accounting. Projected losses are provided for in their entirety.

The Company has retained proprietary and sales commission rights to technical data relating to completed geophysical and geological appraisal projects in the Canadian North (Geoquest, Arcticquest, Polarquest, Baffinquest) subject to payment of varying portions of sales proceeds to companies which provided services for the projects. In accordance with the Company's accounting policy the costs of such completed projects have been written off.

NOTE 3. PROPERTY AND EQUIPMENT:

	Depreciation rates, mainly	1971	1970
Aircraft and helicopter divisions	12½% to 15%	$ 4,493,873	$ 4,373,461
Drilling divisions	18% to 33%	5,172,484	8,008,878
Seismic and geophysical divisions	32% to 45%	1,605,468	1,198,653
Oilfield construction division	24% to 33%	757,541	781,993
Petroleum and natural gas interests		50,000	41,349
		12,079,366	14,404,334
Less – Accumulated depreciation		6,117,999	5,918,163
		$ 5,961,367	$ 8,486,171

The above depreciation rates are applied on a reducing balance basis and will amortize costs, less estimated salvage values, over the estimated economic service lives of the respective assets.

NOTE 4. GOODWILL:

In the opinion of management, there is no present indication that the balance of the intangible asset "Goodwill" has a determinable life or existence and accordingly it has not been written off except to the extent of income tax reductions occasioned by the utilization of pre-acquisition losses of a subsidiary. A 1971 income tax reduction of $13,082 arose from the carry-forward of the remainder of these losses. The resultant write-off is included in the provision for deferred income taxes.

NOTE 5. TERM DEBT:

		1971	1970
7½% Convertible sinking fund debentures	(i)	$ 950,000	$ 1,150,000
Demand bank loans, being repaid in monthly instalments of approximately $23,000 together with interest at current bank rates, secured principally by general assignment of accounts receivable	(ii)	1,417,320	—
Notes repayable in annual instalments to 1973 with interest rates to 7%		115,000	215,000
3% Debenture, due December 1981, but agreed to be repaid by July 1972 (unsecured)		140,000	140,000
8% Notes repayable July 1974		67,818	67,818
Term bank loans, secured by general assignment of accounts receivable and by fixed and floating charge mortgages and debentures		—	2,670,090
Other		2,220	96,768
	(iii)	2,692,358	4,339,676
Less —Payments due within one year included in current liabilities		477,193	1,436,538
Term debt due beyond one year		$ 2,215,165	$ 2,903,138

(i) 7½% Convertible sinking fund debentures Series A, due May 15, 1980, interest payable semi-annually, requiring sinking fund payments of $100,000 annually from 1973 to 1979 inclusive. Each $1,000 principal amount is convertible into 34 common shares to May 15, 1973 and thereafter into 28 common shares to May 15, 1978, subject to anti-dilution terms and is redeemable at a reducing premium otherwise than out of the sinking fund after May 15, 1972. Under the terms of the Trust Indenture the debentures are a direct obligation of the Company but are not secured by any mortgage, pledge or charge. Covenants contained in the debenture preclude certain transactions (including the issuance of term debt, the payment of dividends, the sale of certain assets and the reduction of capital stock) unless specific conditions are met.

(ii) These financial statements give effect to revisions in interest rates, terms and security with respect to bank financing. The revisions were negotiated prior to the year end and were made effective March 6, 1972.

(iii) Payments due on term debt:

1972	$ 477,193
1973	400,464
1974	443,782
1975	375,964
1976	375,964
Thereafter	618,991
	$2,692,358

NOTE 6. DEFERRED INCOME TAXES:

Full provision has been made for deferred income taxes which relate primarily to timing differences between depreciation provided for accounting purposes and that claimed for income tax purposes.

NOTE 7. PROVISIONS FOR ACCRUED COSTS:

Provisions are made (by charges to income based upon levels of operating activity) for estimated future liabilities relating to major overhauls of aircraft and helicopters, to self-insured risks with respect to certain helicopters, and to costs which are occasionally incurred because of unpredictable major delays in carrying out drilling contracts. Actual costs, when incurred, are charged against the appropriate provision to the extent of that provision.

NOTE 8. CAPITAL STOCK:

The following table outlines the changes in capital stock and paid-in surplus during the year ended December 31, 1971:

	Common Shares		Paid-in	Class A Preferred Shares	
	Shares	Par Value	Surplus	Shares	Par Value
Balance, December 31, 1970 . . .	407,091	$203,545	$ 948,501	128,555	$1,606,938
Issued:					
Under warrants (at $8.50 cash per share)	368	184	2,944	—	—
In exchange for Class A preferred shares (one common share for each preferred share exchanged) .	80,308	40,154	963,696	(80,308)	(1,003,850)
	487,767	$243,883	$1,915,141	48,247	$ 603,088

The following warrants and options were outstanding at December 31, 1971:

Warrants:

23,632 entitling holders to purchase one common share for each warrant at $8.50 per share at the rate of 11,632 shares to June 30, 1972 and 12,000 shares during the year July 1, 1972 to June 30, 1973 on a non-cumulative basis.

1,600 entitling holders to purchase one common share for each warrant at $20.00 per share during the period December 1, 1971 to November 30, 1973 at the rate of 800 shares per year on a non-cumulative basis.

Employee Options:

12,700 common shares at a price of $9.00 per share exercisable 1970 to 1975 at the rate of one fifth each year on a cumulative basis. Options for 4,200 of these shares are held by officers of the Company, one of whom is also a Director.

Preferred shares are convertible share for share into common shares as follows:

Class A to December 31, 1974, Class B to January 15, 1973 and Class C to January 15, 1974. Holders of Class B and C preferred shares are entitled to one vote per share at all shareholders' meetings. Class A, B and C preferred shares are redeemable at a premium of approximately 5½% as at December 31, 1971 and thereafter at annually reducing prices which reach par value on March 1, 1982, March 15, 1981 and December 31, 1980, respectively.

The Company has reserved 139,479 common shares for the possible conversion of preferred shares, sinking fund debentures Series A and the exercise of outstanding warrants and options.

NOTE 9. DIVIDENDS:

Payment of preferred dividend arrears during 1971 resulted in Class A preferred shareholders no longer having the right to receive notice of and to vote at annual general meetings. Under the terms of issue of preferred shares payment of dividends, except stock dividends, on common shares is subject to certain restrictions. In accordance with these terms the amount available for payment of dividends on common stock is not less than the retained earnings shown in the consolidated balance sheet as at December 31, 1971. Under the terms of the 7½% Convertible sinking fund debentures cash dividends may not be paid unless working capital exceeds $1,000,000 after such payment.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES:

To December 31, 1971 the Company had received technological development grants totalling approximately $165,000 from the Federal Government. In the event that a commercially successful product is developed, the grants are repayable.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES (Continued):

The Company is obligated under certain equipment and premises lease agreements to pay annual rentals as follows:

1972	$530,000
1973	378,000
1974	238,000
1975	180,000
1976	180,000
1977 through 1979	41,000
1980 through 1988	19,000

The leases can be renewed on various terms and most equipment leases provide for options to purchase.

A claim in the approximate amount of $150,000 has been filed against the Company in connection with an incident involving a Company employee. In the opinion of management, after consultation with counsel, no loss to the Company will result from this claim.

The Company has received notice of a claim against it of $100,000 in connection with an offshore rig towing contract. In the opinion of counsel, the matter can be resolved without liability for payment occurring to the Company.

The Company is contingently liable for the usual liabilities of contractors, indeterminate in amount, for completion of contracts.

NOTE 11. REVENUE:

The revenue resulting from the operation of each of the Company's main classes of business, expressed as a percentage of total revenue, was as follows:

	1971	1970
Drilling	29%	33%
Aircraft and helicopters	26%	27%
Oilfield construction	19%	17%
Seismic, geophysics and data sales	26%	23%
	100%	100%

NOTE 12. EXTRAORDINARY ITEMS:

		1971	1970
Income tax reduction arising from utilization of losses carried forward	(i)	$ 410,320	$ —
Loss on sale of Offshore Division	(ii)	(459,996)	—
Provision for Offshore Division costs, net of deferred income tax recovery of $180,000		—	(180,000)
Write-down of investments in other companies		(117,163)	(132,514)
Gain (loss) on disposal of investments		4,279	(42,229)
		$ (162,560)	$ (354,743)

(i) Income tax loss carry-forwards of Kenting Exploration Services Limited, a subsidiary company, were fully utilized in 1971 and resulted in an income tax reduction of $410,320. This income tax reduction had not been recognized in the accounts in the years the losses occurred.

(ii) This loss consists of 1971 Offshore Division net operating costs and the loss on disposal of offshore drilling equipment. It has been reduced by the 1970 Provision for Offshore Division costs ($360,000) and by a deferred income tax recovery of approximately $460,000.

Net operating costs, administration and general expenses and depreciation for 1970 include Offshore Division costs of approximately $875,000; 1970 revenue includes an Offshore Division contract cancellation fee of $624,000.

NOTE 13. EARNINGS (LOSS) PER SHARE:

Basic earnings per share —

The earnings (loss) per share figures are calculated using the weighted average number of shares outstanding (427,206 — 1971; 389,921 — 1970) after deducting preferred share dividend requirements ($121,048 — 1971; $136,106 — 1970).

Fully diluted earnings per share —

If it were assumed that the warrants, options, Class A preferred shares and 7½% Convertible sinking fund debentures had been exercised or converted as at January 1, 1971 and that the funds derived from the exercise of the warrants and options had been invested to produce an annual after-tax return of 4% ($13,887) the earnings per share for 1971 would have been:

Income before extraordinary items	$1.12
Net income for the year	$ .85

Conversion of the Class B and Class C preferred shares would have an anti-dilutive effect on (would increase) earnings per share; accordingly no effect has been given to these possible conversions in the above calculation.

NOTE 14. REMUNERATION OF DIRECTORS AND OFFICERS:

	1971		1970	
	Number	Total	Number	Total
Directors	12	$ 15,908	18	$ 33,660
Officers	8	169,227	11	177,252
		$185,135		$210,912

Officers who were also directors: 1971 — 5, 1970 — 7. 1970 figures include remuneration of 3 officers — $25,327 and 6 directors — $21,385 who retired from the Company during that year.

AUDITORS' REPORT

To the Shareholders of

KENTING LIMITED:

We have examined the consolidated balance sheet of Kenting Limited and subsidiaries as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary 1, Alberta
March 6, 1972

PRICE WATERHOUSE & CO.
Chartered Accountants

FIVE YEAR EARNINGS SUMMARY "POOLING OF INTERESTS"

1967 figures have been restated from those reported to shareholders in that year in order to include the income statement of Big Indian Drilling Co. Ltd. This corporation became a subsidiary of Kenting Limited as a result of a 1968 share exchange and the combination was accounted for as a "pooling of interests."

The weighted average number of common shares outstanding gives effect to common shares exchanged for subsidiaries combined on the "pooling of interests" basis. Earnings or loss attributable to common shares have been determined after providing for prescribed dividends on preferred shares of $121,000 in 1971, $136,000 in 1970 and $146,000 annually in 1969 and prior years. Dividends actually paid on the preferred shares were: 1971 — $340,265; 1970 — nil; 1969 — $64,050; 1968 — $126,186 and 1967 — $3,210.

	1971	1970	1969	1968	1967
Revenue	$18,397,000	20,821,000	21,419,000	13,856,000	9,855,000
Net operating costs; sales, administration and general expenses	15,545,000	18,728,000	19,182,000	12,095,000	7,911,000
Interest on term debt	243,000	463,000	501,000	277,000	145,000
	15,788,000	19,191,000	19,683,000	12,372,000	8,056,000
Cash flow from operations (before income taxes)	2,609,000	1,630,000	1,736,000	1,484,000	1,799,000
Current income taxes provided (recovered)	295,000	(40,000)	29,000	110,000	76,000
Cash flow from operations (after income taxes)	2,314,000	1,670,000	1,707,000	1,374,000	1,723,000
Depreciation, depletion and amortization	1,337,000	2,116,000	1,047,000	738,000	613,000
Loss (gain) on disposal of property and equipment	(64,000)	16,000	(11,000)	(52,000)	(56,000)
Deferred income taxes provided (recovered)	370,000	(121,000)	450,000	307,000	422,000
Portion of net income of pooled companies applicable to purchase	—	—	—	—	70,000
	1,643,000	2,011,000	1,486,000	993,000	1,049,000
Income (loss) before extraordinary items	671,000	(341,000)	221,000	381,000	674,000
Extraordinary items, net of applicable income taxes	(163,000)	(355,000)	422,000	109,000	68,000
Net income (loss) for year	$ 508,000	(696,000)	643,000	490,000	742,000
Earnings (loss) attributable to each common share (after providing for prescribed dividends on preferred shares):					
Cash flow from operations (before income taxes)	$ 5.82	3.83	4.92	4.32	5.76
Cash flow from operations (after income taxes)	$ 5.13	3.94	4.83	3.97	5.50
Income (loss) before extraordinary items	$ 1.29	(1.23)	.23	.76	1.84
Net income (loss)	$ .91	(2.14)	1.54	1.11	2.08
Weighted average number of shares outstanding	427,206	389,921	323,044	309,585	286,823
Fully diluted earnings (loss) per share:					
Income (loss) before extraordinary items	$ 1.12	(1.23)	.45	.71	1.36
Net income (loss)	$ .85	(2.14)	1.20	.92	1.49

FIVE YEAR EARNINGS SUMMARY

This summary sets out earnings figures as originally issued to shareholders in the respective years. The attached "Five Year Earnings Summary — Pooling of Interests" restates earnings for subsequent subsidiary acquisitions.

	Current Year	As Previously Reported to Shareholders (Presented in Conformity with 1971)			
	1971	1970	1969	1968	1967
Revenue	$18,397,000	20,821,000	21,419,000	13,856,000	8,311,000
Net operating costs; sales, administration and general expenses	15,545,000	18,728,000	19,182,000	12,095,000	6,563,000
Interest on term debt	243,000	463,000	501,000	277,000	141,000
Provision for depreciation, depletion and amortization	1,337,000	2,116,000	1,047,000	738,000	535,000
Loss (gain) on disposal of property and equipment	(64,000)	16,000	(11,000)	(52,000)	—
	17,061,000	21,323,000	20,719,000	13,058,000	7,239,000
Operating income (loss)	1,336,000	(502,000)	700,000	798,000	1,072,000
Provision for (recovery of) income taxes					
Current	295,000	(40,000)	29,000	110,000	70,000
Deferred	370,000	(121,000)	450,000	307,000	357,000
	665,000	(161,000)	479,000	417,000	427,000
Income (loss) before extraordinary items	671,000	(341,000)	221,000	381,000	645,000
Extraordinary items, net of applicable income taxes	(163,000)	(355,000)	422,000	109,000	109,000
Income (loss) before the following deduction	508,000	(696,000)	643,000	490,000	754,000
Portion of net income of pooled companies applicable to purchase	—	—	—	—	70,000
Net income (loss) for the year	$ 508,000	(696,000)	643,000	490,000	684,000
Weighted average number of common shares outstanding	427,206	389,921	323,044	309,585	277,823
Net income (loss) attributable to each common share (after provision for preferred share dividends)	$ .91	(2.14)	1.54	1.11	2.00
Common share dividends					
Per share	$ —	—	—	.30	.30
Aggregate	$ —	—	—	92,612	63,997
Class A Preferred share dividends					
Per share	$ 1.875	—	.375	.75	.022
Aggregate	$ 241,040	—	53,250	106,500	3,210
Class B Preferred share dividends					
Per share	$ 4.50	—	.90	1.36	—
Aggregate	$ 54,000	—	10,800	16,268	—
Class C Preferred share dividends					
Per share	$ 5.025	—	—	.38	—
Aggregate	$ 45,225	—	—	3,418	—

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INTERIM REPORT TO THE SHAREHOLDERS

FOR THE SIX-MONTH PERIOD ENDING JUNE 30, 1971

KENTING LIMITED

KENTING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	For The Six Months Ended June 30		For The Twelve Months Ended June 30	
	1971	1970	1971	1970
Revenue	$ 8,820,000	$10,482,000	$19,159,000	$21,664,000
Operating costs	6,177,000	8,281,000	14,059,000	16,664,000
Sales, administration and general expenses	1,274,000	1,339,000	2,501,000	2,564,000
Interest on long term debt	152,000	253,000	362,000	568,000
Provision for depreciation, depletion and amortization	552,000	892,000	1,776,000	1,476,000
Gain on disposal of property and equipment	(65,000)	(10,000)	(39,000)	(12,000)
	8,090,000	10,755,000	18,659,000	21,260,000
Operating profit (loss)	730,000	(273,000)	500,000	404,000
Provision for (recovery of) income taxes:				
Current	140,000	13,000	87,000	(4,000)
Deferred	224,000	50,000	53,000	307,000
Profit (loss) before extraordinary income (expense)	366,000	(336,000)	360,000	101,000
Offshore Division costs	(112,000)	—	(292,000)	—
Reduction of deferred income taxes resulting from carry-forward of losses of a certain subsidiary	355,000	—	355,000	—
Write-down of investment	(60,000)	—	(192,000)	—
Gain (loss) on disposal of investments, subsidiary company and oil properties	4,000	35,000	(73,000)	119,000
Other	—	—	—	(26,000)
Net income (loss) for period	$ 553,000	$ (301,000)	$ 158,000	$ 194,000
Earnings (loss) attributable to each common share after providing for prescribed dividends on preferred shares:				
Funds from operations before taxes	$ 2.82	1.39	5.16	4.87
Before extraordinary items	$ .73	(1.04)	.55	(.10)
On net income	$ 1.19	(.95)	.05	.16
Weighted average number of shares outstanding	407,091	389,762	407,091	355,829
NOTE 1 Earnings (loss) attributable to each common share if conversion of all outstanding preferred shares and convertible debentures and exercising of all outstanding warrants and options is assumed:				
Before extraordinary items	$ .61	(.50)	.63	.24
On net income	$ .91	(.44)	.31	.40

NOTE 2 1970 figures have been restated in order to incorporate Offshore Division revenue and depreciation and changes in rates of depreciation.

The above statement is unaudited.

TO THE SHAREHOLDERS:

The results of Kenting's operations for the first half of 1971 were substantially better than those of the first half of 1970. The improvement, which took place primarily in the first quarter, was due to the sale of Quest data, reductions in fixed costs, and a carry forward of past losses for income tax purposes. These items were fully explained in the Company's first quarter report.

The Company's net income for the six month period ended June 30 was $553,000 ($1.19 per share) as compared to a re-stated loss of $301,000 (95¢ per share) for the same period in 1970.

The profit before extraordinary items was $366,000 (73¢ per share) as compared to a restated loss of $336,000 ($1.04 per share) in 1970. The extraordinary income consisted of a reduction of deferred income taxes of $355,000 due to a carry forward of losses which were incurred by a subsidiary purchased some years ago. From this is subtracted $60,000 resulting from a write-down of the investment in another company, and Offshore Division costs of $112,000 (net of deferred tax).

The profit before extraordinary items for the twelve month period ended June 30, 1971 was $360,000 as compared to $101,000 in 1970. The net income for the same periods was $158,000 in 1971 as compared to $194,000 in 1970.

During the past six months the Company has strengthened its balance sheet position considerably. Working capital has been increased by approximately $400,000, while payments on the offshore rig loan have been maintained and reductions in term debt have continued. New capital expenditures have been kept to a minimum, although funds have been spent to maintain the efficiency of the Company's equipment and to upgrade where necessary. In the past year, the term debt has been reduced from $3,500,000 to $2,200,000.

OFFSHORE RIG

Negotiations for the sale of the Company's Offshore Division have been concluded as of the date of this report. Accordingly, all 1971 operating and depreciation expenses of this division have been charged to an extraordinary item of expense. A further net extraordinary charge of approximately $350,000 will be necessary by the end of the third quarter. The sale involves a cash consideration and will increase the working capital by approximately $1,000,000 and reduce long term debt by approximately $658,000.

DIVISIONAL REVIEW

A review of divisional operations to date indicates the following:

The helicopter division started off more slowly in the first half than in prior years, but is experiencing good utilization in the third quarter.

The fixed-wing division normally experiences losses in the first half. However, this year those losses were the lowest they have ever been. It is expected that the combined aviation divisions will perform about as well as they did in 1970.

The drilling divisions experienced a reasonable first half and profits are somewhat ahead of projections for 1971 and ahead of those for the same period in 1970. However, drilling activity in Western Canada is off substantially and reduced utilization is forecast for the third and fourth quarters.

The geophysical divisions are running ahead of budget for 1971, and substantially ahead of actual for 1970, due to the sale of Quest data in the first quarter. The divisions engaged in geophysical work are fully back-logged for the third quarter. The largest programme being undertaken is a marine seismic survey involving two ice strengthened vessels (Theron and Theta) to be used in ice infested areas in the Arctic Islands and off the east coast of Baffin Island. These surveys are part of Polarquest '71 and Baffinquest.

In summary, the first half of 1971 is considerably better than 1970. The last half looks as if it will be better than the last half of 1970.

J. W. Strath
President

August 20, 1971.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For The Six Months Ended June 30 1971	1970	For The Twelve Months Ended June 30 1971	1970
SOURCE OF FUNDS				
Funds from operations before taxes	$ 1,217,000	$ 609,000	$ 2,237,000	$ 1,868,000
Less - provision for current income taxes	140,000	13,000	87,000	(4,000)
Funds from operations	1,077,000	596,000	2,150,000	1,872,000
Long term borrowing	—	172,000	—	404,000
Proceeds from property and equipment disposals	316,000	411,000	430,000	649,000
Provision for self-insurance	31,000	11,000	20,000	(38,000)
Disposal of investments	7,000	35,000	—	321,000
Sale of common shares for cash	—	815,000	6,000	839,000
Deferred receivable	—	—	—	186,000
Proceeds from sale of subsidiary company and oil and gas properties	—	—	—	386,000
Other	1,000	—	2,000	21,000
	$ 1,432,000	$ 2,040,000	$ 2,608,000	$ 4,640,000
APPLICATION OF FUNDS				
Additions to property and equipment	$ 235,000	$ 653,000	$ 706,000	$ 2,402,000
Deferred charges	—	55,000	33,000	157,000
Decrease in term debt	727,000	728,000	1,316,000	2,039,000
Production bank loan	—	—	—	215,000
Portion of investment in purchaser of instrument division represented by inventories and incidental costs	—	—	275,000	—
Investment in subsidiaries	—	—	—	219,000
Disposal and write-down of temporary investments	—	—	118,000	—
Offshore Division costs	57,000	—	57,000	—
Other	—	2,000	—	2,000
	1,019,000	1,438,000	2,505,000	5,034,000
Increase (decrease) in working capital	413,000	602,000	103,000	(394,000)
	$ 1,432,000	$ 2,040,000	$ 2,608,000	$ 4,640,000

The above statement is unaudited.

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